

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
MINUTES OF THE NOVEMBER 21, 2012 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present

Laurie Braun
Dr. Brian Daugherty
D.A. Leonard
Mickey Maier (Chairman)
Dean Muller
Dr. Sarah Peck
Patricia Van Kampen
Vera Westphal

Member Excused

Norb Gedemer
Dave Sikorski (Vice Chair)

Others Present

Marian Ninneman, CEBS, CRC, ERS Manager
Mark Grady, Deputy Corporation Counsel
Daniel Gopalan, Fiscal Officer
Vivian Aikin, ERS
Scott Manske, Controller
Larry Langer, Buck Consultants
Emily Urbaniak, Buck Consultants
Michelle Picard, Geneva Capital Management
Nicholas Bauer, Geneva Capital Management
Ray Caprio, Marquette Associates, Inc.
Brett Christenson, Marquette Associates, Inc.
Marilyn Mayr, Prior Pension Board Member and Retiree
Yvonne Mahoney, Retiree
John Rapant, Retiree
John Sosey, Attorney for John Rapant
Kenya Walker, Guardian for Minor Beneficiaries of Yvonne Ware
Kevin Walker, Beneficiary of Yvonne Ware
Steven Huff, Reinhart Boerner Van Deuren s.c.

3. Chairman's Report

The Chairman first welcomed Laurie Braun and Vera Westphal, both representing the active employees, as the new employee-elected members of the Pension Board.

Ms. Braun noted that she is currently the supervising accountant at the District Attorney's Office. Previous work history includes experience in private industry as an accounting manager at a Fortune 500 company. Additionally, she served as a special agent with the Treasury Department for 12 years, conducting financial investigations involving money laundering and tax fraud.

Ms. Westphal then stated that she has served over 28 years with the County, 15 of which was in the Department of Administrative Services-Fiscal Affairs as a Fiscal and Management Analyst, examining the County's Fringe Benefit/Pension Budget. For the last 7 years, Ms. Westphal has worked at the Milwaukee County Zoo as the Deputy Zoo Director of Administration and Finance.

The Chairman then stated that while decisions take place at the Pension Board level, the Investment Committee and the Audit Committee review items on an interim basis and make recommendations to the Board. The Chairman invited Ms. Braun and Ms. Westphal to participate in one or both committees.

4. Minutes—October 17, 2012 Pension Board Meeting

The Pension Board reviewed the minutes of the October 17, 2012 Pension Board meeting.

The Pension Board unanimously approved the minutes of the October 17, 2012 Pension Board meeting. Motion by Mr. Leonard, seconded by Dr. Daugherty.

5. Actuarial

Larry Langer and Emily Urbaniak of Buck Consultants distributed and discussed the Quinquennial Experience Review for Calendar Years 2007 through 2011.

Mr. Langer first stated that an actuarial valuation determines the contributions needed in the retirement system over the course of a member's career so that there are sufficient funds to pay retirement benefits. An actuary provides an estimate of those numbers using various demographic

and economic assumptions, including Fund return and salary increases. An experience review is conducted every 5 years to evaluate those assumptions, and recommendations are then made for adjustments. Additionally, once contributions are determined, a policy for funding those benefits must be developed.

Mr. Langer then stated that the funding policy currently in place includes an entry age normal actuarial cost method in order to develop costs that remain level as a percentage of payroll over time. This method is used by 75% of public sector funds, and Buck Consultants recommends its continued use. Additionally, the current funding policy contains an asset valuation method, or a smoothed or averaged market value of assets, for the purpose of determining contributions. Finally, an amortization method is also part of the current funding policy. This method determines the payment schedule for unfunded actuarial accrued liability. While there may at some point be reason to change the existing policy, depending on various economic or demographic factors, Buck Consultants recommends that ERS continue to use this policy.

Mr. Langer discussed the asset valuation method, or smoothing method, in more detail. The actuarial value of assets is primarily used to control contribution volatility and reflects asset returns that differ from the assumed rate of return and that are smoothed over a period of years. The current smoothing period is 5 years. However, the change in contribution to unfunded liability in absolute terms based on ERS assets and liabilities is lower over a 10-year smoothing period, which is something for the Board to consider.

In response to questions from Mr. Muller, Mr. Langer stated that if asset value is smoothed over a 10-year period, the average change in contribution from year-to-year is approximately \$5.2 million compared to current. If gains and losses had not been smoothed when the markets fell in 2008, there would have been consecutive increases in contributions of \$30 million and \$35 million, or \$65 million over two years. As the markets rebounded, that high an increase was not necessary because a longer smoothing period results in less volatile contributions. There must be a balance between contributions that are reactive to what is actually happening versus contributions that remain stable. Contributions will not move quite that fast in a 10-year smoothing period. Because the Plan is well-funded, extending the amortization period to a 10-year period will provide contribution relief without harming members because there is still \$0.85 to \$0.90 on the dollar of funding with the Fund.

In response to questions from Dr. Peck, Mr. Langer stated that use of asset smoothing in the valuation is an attempt to mitigate the year-to-year contribution volatility. The total amount of contributions should end up being the same over the long haul if the current 5-year smoothing period is extended to 10 years. The impact on funding will depend on market results over the 10-year period. For example, if a 10-year instead of a 5-year smoothing period had been used over the last decade, contributions would not have decreased as quickly and the funded status would most likely have only been a half percent to a percent lower.

In response to a question from Mr. Leonard, Mr. Langer confirmed that moving to a 10-year smoothing period would result in less volatility in annual contributions.

Mr. Langer then provided a summary of the recommendations from Buck Consultants. The first recommendation is to change the assumptions to match what actually occurred over the past 5 years. For example, fewer retirements occurred than were anticipated, so it may be prudent to reduce the number of retirements expected over the next 5-year period.

In response to a question from the Chairman, Mr. Langer replied that even with the higher number of retirements over the last 2 years, there is still somewhat of a delay in overall retirements, primarily due to backDROP.

Mr. Langer continued by noting that there were also fewer disabilities and fewer non-vested terminations, and the mortality table should be updated to reflect that because both tend to result in slightly lower cost to the Plan. Additionally, at the last Board meeting, a recommendation was adopted with regard to active mortality. However, when further review was conducted, Buck Consultants determined that there was a better mortality table to use that reflects fewer deaths and longer life expectancies. The impact is the same because generational mortality, the automatic updating of mortality, is still accounted for to avoid a large increase in costs at the next experience review. A review of inactive mortality revealed both expedited and delayed deaths. With salary, employees received lower increases and even decreases, so the recommendation there is to pull back on salary increases to ultimately decrease cost to the Plan. Buck Consultants also reviewed the backDROP in terms of length and the number of elections, but because the result was relatively on target with the assumptions, the current 75% should be maintained. Finally, the current investment return of 8% is also reasonable and should be maintained.

In response to a question from Mr. Leonard as to whether the higher salary increase rate for deputy sheriffs compared to other County employees is due

to its shrinking workforce, Mr. Langer stated Buck Consultants estimates salary increases that vary by age for individuals. Over the past 5 years, salary increases were somewhat lower compared to what was expected. In terms of overall workforce, the retirement assumption anticipates that people are going to leave. What is important is whether the actual numbers vary from what is anticipated. Additionally, many positions are not being replaced. As a result, overall payroll grows over time, but not as fast as anticipated. If payroll does not increase as much as expected, unfunded liability will not be paid off as fast.

In response to a question from Mr. Leonard regarding the effect of replacing a deputy sheriff in step 5 of a 5-step plan with someone who is in step 1, Mr. Langer explained that situation is already a factor in the assumptions. Proposed salary increases start off higher earlier in a career and then decrease as age increases. As people leave, new people come in who have higher salary increases earlier in their career. The assumption is in part modeled on that data.

In response to a question from Ms. Braun, Mr. Langer stated that the current salary study by the County will be reflected in the valuation after it is complete because each subsequent valuation is trued-up with actual data.

In response to a question from Dr. Daugherty, Mr. Langer stated that the delayed retirement trend of the last 5 years does not necessarily indicate a wave of delayed retirement in the future. While delayed retirements will most likely continue, the assumption should also take into account the potential number of people retiring outside the 5-year period of the valuation.

In response to a question from Ms. Van Kampen regarding the overall net impact in terms of cost for the proposed recommendations, Mr. Langer stated that mortality increases costs, so one net result is an increase in the cost of funding. However, increases in liabilities or contributions due to mortality should not be anticipated in the future because mortality updates will automatically be included in the valuations year by year. A second impact relates to contributions in that the unfunded liability increases. Of the projected \$36 million contribution, about \$16 million to \$17 million is for benefits accruing during the year. The remainder is payment of unfunded liabilities.

In response to a question from Dr. Peck, Mr. Langer confirmed that the extending the smoothing period to 10 years mitigates the effects of the proposed recommendations.

In response to a question from the Chairman, Mr. Langer confirmed that the mortality table needs to be changed to take into account various factors such as people living longer, resulting in an increase in costs. While other assumptions will decrease cost, contribution levels overall will increase to approximately \$36 million.

At the request of the Chairman, Mr. Langer addressed mortality tables. The old mortality table, or the UP94 Mortality Table, was fairly conservative in terms of mortality numbers. The revised table considered at the last Board meeting included generational mortality to automatically update changing mortality. However, a later review indicated that the revised mortality table was still too conservative. Buck Consultants then found a new table, a variance of the RP2000 Mortality Table, which is a better match to the ERS population and less conservative, while still anticipating longer life expectancies.

In response to a question from Mr. Leonard, Mr. Langer stated that generational mortality does generally take into account life experiences that differ from the norm, although at a broader level.

In response to a question from Mr. Muller about the 2013 factor tables to be developed by Buck Consultants, Mr. Langer explained this will be a result of a meeting to take place with ERS staff to discuss optional forms of payment and related cost in terms of mortality.

The Pension Board unanimously approved accepting the assumption recommendations in the 5-year experience review from Buck Consultants, the adoption of a 10-year smoothing period of assets, and the production of 2013 factor tables for mortality. Motion by Mr. Muller, seconded by Ms. Van Kampen.

In response to a question from the Chairman, Mr. Huff stated that the proposed amendment to Rule 1014 regarding the mortality table is moved to the December Board meeting.

6. Investments

(a) Geneva Capital Management

Nicholas Bauer and Michelle Picard of Geneva Capital Management distributed a booklet containing information on the investment management services provided by Geneva Capital for ERS. Mr. Bauer introduced himself as a Principal of the firm and Director of Consultant Relations, and

Ms. Picard as Managing Principal and Portfolio Manager of mid-cap growth.

Ms. Picard first provided an overview of Geneva Capital, an employee-owned and operated firm with offices in downtown Milwaukee. The firm was founded in 1987. The initial investment philosophy was to perform better than the peer group by finding companies in a solid lifecycle position. That same investment philosophy of buying early enough and holding for a long period of time to make money, potentially trimming position over time to lock profit, is still used today. Geneva Capital has an experienced, focused management team that uses interns from applied investment management programs at Marquette, UW-Milwaukee, and UW-Madison. The interns have a great deal of skill but have not yet developed their own investment style, so Geneva Capital can apprentice them into using its own investment philosophy. There are currently approximately \$3.8 billion in assets under management in a diversified asset base, which brings stability to the company. Geneva has been managing money for public pension plans, currently just under a third of its assets, for a long time. Geneva manages money for the Ohio Public Employee Retirement System, the State of Kentucky Retirement System, and the City of Philadelphia, and has delivered consistent and competitive performance with less volatility.

Ms. Picard then discussed Geneva's market cycle performance history. Over time, Geneva has performed well. During normal bull market periods, Geneva had solid, absolute returns that were competitive relative to the benchmark and to its peer group, and capital was preserved in down markets. In the bear market from 2000 to 2002, the portfolio was down only 2.2% annualized over those 3 years versus the benchmark, down 20% annualized over the same period, so there was significant protection of principal. With the speculative markets in 2003 and 2009, absolute returns were very good, but lagged the benchmark on a relative basis because the lowest quality stocks were significantly outperforming. Speculative markets do not occur very often, however, and while it is difficult for asset managers in these markets, they do not last long. The market tends to revert back to higher-quality companies with superior management teams, number one or number two market share positions, a sustainable competitive advantage, and unique, company-specific drivers of growth so the company is less dependent on the overall economy. In 2009, the last speculative market, Geneva had companies with more financial flexibility and less debt that were able to continue growing their sales force or investing in research and development. Not only were these companies gaining market share and performing well throughout the downturn, they

also gained a lot of ground over their competitors coming out of that market.

In response to a question from Mr. Muller as to what Geneva would do differently in a 2008 market, Ms. Picard replied that 2008 was a unique environment in that everything was re-priced because of the financial crisis. It would be difficult to do much of anything differently. Geneva did move slightly by increasing some of its defensive positioning and moving cash but remaining fully invested. Adhering to discipline by maintaining a very consistent process of evaluating companies and trimming and adding positions is probably the most prudent behavior.

In response to a question from Mr. Muller, Ms. Picard stated that it took approximately 3 years to recover from the one-third drop in that time period.

In response to a question from Ms. Van Kampen about the total amount Geneva would feel comfortable managing in mid-cap growth, Ms. Picard stated that Geneva would soft-close at about \$4.5 billion to \$5 billion. Geneva studied the liquidity in its companies, the average daily trading volume, and how easy it is to get out of a position if necessary, which should ideally happen within a 10-day time period. Being an employee-owned firm located in Milwaukee adds stability to overall business, as do the overall assets of the business. It also properly aligns the incentives of the investment managers and the principals of the firm with that of the client, allowing the firm to keep its own counsel in terms of how the portfolio is managed.

In response to a question from Mr. Christenson on value versus growth over the next 10 years, Ms. Picard stated that in the environment that Geneva expects over the next few years, which is somewhat stable but with low economic growth, typically growth companies perform better. Geneva companies tend to be higher quality companies that have not only above-average growth but also stability and predictability to their revenue and earnings to growth lines. Geneva is very aware of what it pays for these companies. The PE is typically the largest indicator of growth or value, and time has proven that it is prudent to pay up a bit for this quality growth because it is more consistent and predictable. Geneva typically buys companies at a 1 to 1.5 PEG ratio, which is PE divided by the growth rate. This is a very attractive entry point because the companies themselves pay above a 2 to 2.5 PEG ratio, which is fairly aggressive. The portfolio as a whole tends to trade with a 1 to 2.2 PEG ratio on the outside, with a current PEG ratio of 1.2. Overall, growth is poised to outperform value because of the current low growth environment. Additionally, the types of companies

that Geneva buys have more consistent above-average growth rates over time, which leads to a more predictable performance record.

In response to a question from the Chairman, Ms. Picard replied that Geneva typically has 50 to 60 positions in the portfolio. When Geneva is looking at a new company to add, the company usually goes in as a 1% to 1.5% position. Geneva will bring that up to a 2% position at cost but will never go higher. The top 10 names in the portfolio are at a 2.6% to 3% position because they have grown faster than the other companies in the portfolio. Once the stock rises above a 3% position, it is trimmed back and profits can be locked in and rotated into stocks that are poised for outperformance going forward.

Ms. Picard concluded by stating that Geneva creates a fairly extensive economic and investment outlook every quarter, and the Board is welcome to subscribe to it. It is very helpful to Geneva because it forces the firm to take a step back and look a little more broadly at what is happening and how the firm is positioned for changes in the marketplace. For example, in 1999, when companies with no earnings were significantly outperforming the rest of the market, Geneva saw technology as a percent of the overall market increasing and valuations at record highs. Geneva wrote about tech bubbles and what happens when a bubble occurs in the market and why it happens repeatedly. The discipline of looking at history and writing about the impact that it could have on the markets helped Geneva sidestep a lot of the devastation that many competitors walked right into.

In response to a question from Mr. Leonard about Geneva projections and the fiscal cliff, Ms. Picard replied that Geneva only has U.S. companies. Geneva anticipates that the fiscal cliff will be resolved and that the market will continue to meander and remain somewhat volatile because it is unlikely that negotiations will be smooth. If the fiscal cliff is not resolved, there will be an impact on the buyer economy and a recession then likely. Overall, however, Geneva is comfortable with the positioning of its companies. Negative impact on sales and earnings may still occur, but less so than with competitors because some of the companies have solid cash balance sheets and are positioned to weather that type of storm.

In response to a question from Dr. Peck, Ms. Picard stated that long-term prospects of a company are measured by meeting in person with the management teams and the CEO or CFO. Geneva will not invest in a company unless it can ask longer term questions about things such as company focus, company future, and competitive threat. Additionally, Geneva looks for management to be invested in the responsible growth of the company.

(b) Marquette Associates Report

Ray Caprio and Brett Christenson of Marquette Associates distributed and discussed the October 2012 monthly report.

Mr. Christenson first discussed the total Fund composite. Through September, the Fund is up 8.9%, slightly outperforming the benchmark and in the 70th percentile of the peer group. This includes Siguler Guff, but the remaining private equities, at just over 5% of the Fund, are not yet reported. The net return is expected to be over 9% when that information comes in. The median fund is up about 9.8%, and year-to-date the markets are up strong in that the U.S. market is up 16% and the international market is up almost 11%. The Fund has an 8.5% underweight in the stock market, but the Fund is more conservative than the peer group. In a strong market, it will lag slightly behind. Fixed income is up 4.3%, and these returns are finally coming in fairly low compared to the rest of the assets. JPMorgan and Mellon Capital are the two bond managers. The yield to maturity, or the dividend from these bond portfolios, is 2% and 1.7%, respectively. JPMorgan is paid to beat the benchmark, so the yield will often be a bit higher, but the reality is that interest rates in the U.S. are at an all-time low and that will result in a drag in performance. By lowering the allocation to fixed income 3% and moving it to private equity, and because these managers are very conservative, a lot of risk was removed. This portfolio should continue to be evaluated to potentially reduce the allocation by another 5%, perhaps moving that straight to the S&P. There is still an underweight to the peer group, and while fixed income is a great anchor to the portfolio, it is still a significant amount at 29% of the Fund.

Mr. Christenson then discussed the individual manager returns. Year-to-date, JPMorgan is up 4.4% and Mellon Capital is up 4.1%, with rankings in the 76th and 86th percentiles, respectively. Again, this is because they are conservative managers. The managers with high yield or that are heavily invested in corporate bonds are the managers that are going to hit in November. However, ERS does not have that type of portfolio because it is so conservative. Many managers are taking excess risk right now because there is no yield, and that is paying off a bit. Overall, returns are consistent but the rankings will not be high in today's market. The U.S. equity portfolio has very strong managers. Boston Partners continues to perform well. On a 10-year basis, Boston Partners ranks in the 13th percentile and has been an excellent large-cap value manager and addition to the portfolio. Artisan Partners is also performing well in mid-growth, ranking in the 16th percentile over a 10-year period, with a year-to-date of almost 18.5%. Most small-cap managers are under performing, but AQR will attend the next

Investment Committee meeting to discuss their performance versus the benchmark. Barings EM is currently on alert. Though the 3-month performance is up 8.2%, Barings was hired just over two years ago and are slightly under-performing overall. Finally, GMO small-cap has performed fairly well through October.

In response to a question from Ms. Van Kampen, Mr. Christenson stated that long-term fixed income concerns could be handled in the short term by shifting assets. Marquette does have clients with a bit of a high yield or other kind of core plus fixed income, but in the near term this is not a positive. High yield is dipping below its long-term spreads, which is a red flag, and there is no compensation for excess risk in the market place right now. The portfolio should remain conservative until the spread improves, at which point increasing risk could be addressed.

Mr. Caprio then discussed the monthly flash report. As of the end of October, the Fund stood at just over \$1.7 billion in assets, slightly less than the previous month. Relative to the policy targets, the Fund is underweight fixed income and private equity, and overweight to all other assets. The underweight to the fixed income target was held throughout the year because of low yields and to pay benefits.

Mr. Caprio then stated that the Fund return for the month was down 0.3%. Marquette expects that to be closer to the black once all the numbers are in. Overall, fixed income was up .20%. US equities were down 1.8% versus a benchmark of 1.7%, and international was up 0.4%, meeting the benchmark. Hedge funds and infrastructure were slightly down. In terms of the individual managers on a 1-month basis, JPMorgan was up 0.3% versus a benchmark of 0.2%. AQR, a U.S. equity manager, is underperforming. There is a new international manager, NTGI ACWI Ex-US, which is the index fund added a few months ago. In hedge funds, ABS is down 0.3%, K2 is down 0.2%, and real estate and infrastructure numbers are not in yet. Overall, the pension fund year-to-date is up 8.7% gross of fees.

Mr. Caprio noted that benefit payments in October will be pulled from Barings in the international portfolio, which is overweight by nearly a percent, or \$13 to \$14 million. Marquette also wants to withdraw from hedged equity, \$3 million from K2 and \$2 million from ABS, for future distributions.

The Pension Board unanimously approved Marquette's request for a \$3 million redemption from K2 and a \$2 million redemption from ABS for future cash flow. Motion by Dr. Peck, seconded by Ms. Van Kampen.

In response to a question from Dr. Peck, Mr. Christenson stated that the request relates to keeping the amount carried in the long-short to below 10% because it has been struggling. A redemption was just received from ABS for \$3.5 to \$4 million, but there is still an overweight. It is small, but it takes time to receive the cash.

Mr. Christenson then noted that Artisan Partners previously pulled back on an IPO, but are now back in the market. The new IPO is a strong, long-term benefit for the firm, but it is standard practice to place a manager on alert in this situation.

The Pension Board unanimously approved placing Artisan Partners on alert. Motion by Dr. Peck, seconded by Mr. Leonard.

7. Investment Committee Report

There was no Investment Committee report because the November 1, 2012 meeting was cancelled.

8. Appeals

The Chairman first asked whether the appellants preferred to state their cases in public, which would then be a matter of public record, or in private. Ms. Walker stated that she preferred to present her case in private, though later reversed her decision. John Sosey, Attorney for Mr. Rapant, stated that a public forum is acceptable.

(a) Diane Haubner

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously approved amending and restating Rule 1049 to codify the retirement effective date for deferred vested members, attached to these minutes as Exhibit A. Motion by Dr. Daugherty, seconded by Ms. Van Kampen.

After returning to open session, the Pension Board, in accordance with the principles adopted as part of its amendment to Rule 1049, and after full consideration of all facts and circumstances, unanimously voted to grant the appeal by Diane S. Bashnell Haubner. Kenneth Haubner's Option 3 form of benefit shall be effective July 14, 2012. Ms. Haubner shall receive a 100% Joint and Survivor Benefit beginning after Mr. Haubner's death. Motion by Dr. Peck, seconded by Ms. Van Kampen.

(b) John Rapant

In open session, Mr. Sosey first introduced Mr. Rapant as a long-time resident of Milwaukee County and a retired veteran, who served with the 7th Army in Germany from October 1963 to October 1965. Mr. Rapant later worked for the County until his retirement in 1990.

Mr. Sosey provided an overview of his client's appeal, stating that Mr. Rapant submitted several requests over the past decade for military service pension credit, but did not receive a response. In 2005, Mr. Rapant worked with the Veteran Services Office on a request for clarification as to whether he was entitled to the pension credit. A letter in Mr. Rapant's personal file dated May 2008 from ERS to the Veteran Services Office states that Mr. Rapant was not eligible. Mr. Rapant, however, remained unaware of whether or not he was eligible for the credit.

Mr. Sosey then requested that the Board reconsider Mr. Rapant's request for military pension credit and that a definitive decision be made.

In response to a question from the Chairman, Mr. Sosey confirmed that Mr. Rapant served in the military just short of two years, from October 11, 1963, to October 7, 1965. These dates are confirmed by a military service application/affidavit Mr. Rapant filed with the County in 2004 or 2005.

In response to a question from the Chairman, Mr. Rapant stated that he completed and returned the request he received from Human Resources. Mr. Sosey noted that it is not known when that occurred.

In response to a question from the Chairman, Mr. Sosey confirmed that Mr. Rapant is appealing from a rule which requires that addition of military credit must be made within one year of retirement. If the appeal is granted, Mr. Rapant then wants to receive the military service credit.

The Chairman then stated that advice from counsel is needed for this appeal, which will be discussed in closed session. The Board will then

provide to Mr. Rapant a written explanation as to whether he is entitled to the benefit and why, and the military service credit will be clearly explained.

In response to questions from the Board, Mr. Rapant replied that when he started receiving his retirement benefits, he was unaware that military service was not part of the calculation. He first became aware of his entitlement to the military service benefit when he received the military service form.

The Pension Board then discussed the matter in closed session.

After returning to open session, the Pension Board unanimously voted to deny Mr. Rapant's appeal, consistent with the discretion assigned to the Pension Board by Ordinance section 201.24(8.17) to interpret the Ordinances and Rules of Employees' Retirement System of the County of Milwaukee ("ERS"), based on the following facts and rationale:

1. John D. Rapant is an ERS member whose pension commenced on November 19, 2000. He earned 10.34445 years of service credit in ERS. A computer report of Mr. Rapant's benefit shows that military service credit was not included in his benefit.
2. At the December 13, 2000 Pension Board meeting, the Pension Board approved the Retirements Granted report that included Mr. Rapant's retirement.
3. In 2003, Mr. Rapant sent a letter to ERS requesting a copy of his employment file and work history with the County.
4. On March 21, 2005, Mr. Rapant send a letter to ERS claiming that he was entitled to military service credit in ERS and again requesting a copy of his employment information.
5. Mr. Rapant's file includes a Military Service Application/Affidavit received by the Retirement Office on March 5, 2004 along with his form DD-214. His file also contains a second copy of his DD-214 that includes a filed date of January 17, 2005. Both documents show that Mr. Rapant entered military service on October 11, 1963 and terminated service on October 7, 1965.
6. Prior to this March 5, 2004 Military Service Application/Affidavit, there is no evidence that Mr. Rapant informed ERS of his military service. Accordingly, it appears that ERS only became aware of his military service on March 5, 2004, almost four years after his retirement.

7. Later in 2005, ERS sent a letter to Mr. Rapant explaining that the court order he referenced was not applicable to his situation.

8. In 2008, ERS and a representative of the Milwaukee County Veterans Services exchanged correspondence regarding Mr. Rapant's benefit. ERS explained to the representative that Mr. Rapant's claims were addressed in the 2005 letter explained above and that the court case cited by Mr. Rapant was not applicable to Mr. Rapant's situation.

9. On April 26, 2012, ERS sent Mr. Rapant a letter denying his request to recalculate his pension to include military service credit and explaining that, pursuant to Rule 1001, Pension Board action is final after one year.

10. On August 6, 2012, Mr. Rapant's attorney, John R. Sosey, sent an appeal from Mr. Rapant dated August 3, 2012.

11. As part of his appeal, Mr. Rapant included an undated letter that he received that was sent by the County to employees requesting that they provide ERS with their military service because it may be included as additional pension service credit. The letter does not include a date, but it appears to have been sent by the County prior to Mr. Rapant's 2000 retirement because the letterhead notes James Krivitz as Human Resources director. Mr. Krivitz was director from July 1983 until July 1988.

- (a) When Mr. Rapant completed the form accompanying the letter, he stated he served four years of military service. However, all of the other records he has provided indicate that he served in the military for less than two years.
- (b) The Retirement Office does not have a copy of this form in Mr. Rapant's file and only received a copy of the form with Mr. Rapant's appeal.

12. The Pension Board finds that all decisions are final after one year and benefits cannot be recalculated on the basis of new information brought forward years later.

13. ERS Rule 1001 provides that "[a]ll actions of the board affecting the status of rights of any individual employee or his beneficiaries shall be considered to be final after expiration of one (1) year from the date such action was taken."

14. Based on the letter Mr. Rapant received from the County between July 1983 and July 1988, the Pension Board finds that Mr. Rapant was aware that his military service could be used to gain additional service

credit in ERS before he retired in 2000. It is a member's responsibility to inform ERS of military service credit, and Mr. Rapant did not inform ERS of his military service at the time of his retirement in 2000, but waited until 2004 to request that this service be included in his pension benefit.

15. The Pension Board finds that it approved Mr. Rapant's retirement on December 13, 2000 with the service credit known to ERS at the time. Pursuant to Rule 1001, this action was final as of December 13, 2001.

16. To allow members to come forward at any time with information unknown to ERS at the time of retirement and recalculate their benefit places a financial and administrative burden on ERS. For this reason, the Pension Board has previously adopted Rules to provide for the finality of benefits. In addition to Rule 1001, the Pension Board amended Rule 1013 to limit a member's ability to change his or her form of benefit and beneficiary after a certain time period.

Motion by Mr. Leonard, seconded by Dr. Daugherty.

(c) Kenya Walker

In open session, the Chairman provided an overview of the appeal. An internal ERS audit revealed that a backDROP payment and potentially benefits were paid to multiple beneficiaries who may not have been entitled to them. ERS sent Kenya Walker a letter indicating so, and that ERS intended to offset the excess payment, at least on the backDROP, against future pension benefits. The Chairman then asked Ms. Walker and Kevin Walker to present their case to the Board.

Ms. Walker stated that her mother, who according to the County was considered an active employee, passed away 9 years ago, and had previously listed her grandchildren as beneficiaries. At the time of her mother's death, ERS explained to Ms. Walker and Mr. Walker how the benefits would be paid, but did not mention a backDROP payment. Until the audit, the benefits were paid exactly how ERS laid out in that the oldest child received the most benefit and the remainder trickled down to the other beneficiaries.

In response to a question from the Chairman, Ms. Walker stated that she did not remember who she spoke to, but that the first name may have been Linda. Mr. Walker then noted that a gentleman also spoke with them and dated the paperwork.

Ms. Walker continued by stating that ERS indicated they knew the benefit was to be paid out, but did not know the proper method to do so because of the situation's unusual nature. Ms. Walker's primary concern today is college tuition paid by the two oldest beneficiaries now and in the future. If the amount of benefit will change, the beneficiaries need to know. Ms. Walker was never aware that the beneficiaries were not entitled to portions of the benefit and did not know to ask that question. However, her mother passed away in 2003, and Ms. Walker's research revealed that certain benefit restrictions did not go into effect until 2009.

The Chairman then stated that the circumstances are somewhat unusual, and the Board will discuss them in detail in closed session. A written explanation and the basis of the decision will be provided to Ms. Walker.

In response to a question from the Chairman, Ms. Walker replied that if the ruling is that too much was paid to the beneficiaries on the benefit, the preference would be to offset future benefits as opposed to using other assets to pay off that amount.

The Pension Board then discussed the matter in closed session.

After returning to open session, the Pension Board, after full consideration of all facts and circumstances in light of the factors described in ERS Rule 1050 pertaining to offset amount, unanimously voted to grant in part and deny in part Kenya Walker's appeal under Rule 1050. Pending the final decision of the Pension Board regarding the benefits payable to Yvonne Ware's beneficiaries, the Retirement Office shall offset 50%, rather than 100%, of monthly pension payments to Ms. Ware's beneficiaries until the entire amount of the backDROP overpayment, plus interest, is recovered. Ms. Walker may appeal the Pension Board's decision regarding the offset under Rule 1016. Motion by Mr. Leonard, seconded by Ms. Van Kampen.

9. Reports of ERS Manager and Fiscal Officer Assistant

(a) Retirements Granted, October 2012

Ms. Ninneman presented the Retirements Granted Report for October 2012. Twenty-six retirements from ERS were approved, with a total monthly payment amount of \$31,618. Of those 26 ERS retirements, 13 were normal retirements, 8 were deferred, 2 were deferred early, and 3 were ordinary disability retirements. Nine members retired under the Rule of 75. Additionally, 12 retirees chose the maximum option, and 7 retirees chose

Option 3. Eleven of the retirees were District Council 48 members. Six retirees elected backDROPs in amounts totaling \$621,202.

Ms. Ninneman then noted that average service was 16 years. There were many 22- to 25-year active service pensions; however, the average was brought down by several employees with service under 10 years.

Mr. Grady stated that the average is most likely down because the full list of pension types was used in the computation as opposed to just the list of normal retirements without the deferred.

(b) ERS Monthly Activities Report, October 2012

Ms. Ninneman presented the Monthly Activities Report for October 2012. ERS and OBRA combined had 7,933 retirees, with a monthly payout of \$12,581,869.

Ms. Ninneman stated that January and February will be full retirement processing months, but the volume is much lower than January and February of last year.

Ms. Ninneman then stated that legal and compliance issues continue to keep ERS busy, but are mostly a result of system audits that have been going on all year. Call volume remains high, especially because it is budget time. ERS receives calls on potential benefit payments as well as how budget action affects those payments.

Ms. Ninneman then noted that Cynthia Walker, an ERS employee, was promoted to fill an existing vacancy, so ERS is still not fully staffed. Last month, Mr. Gopalan officially assumed the Fiscal Officer position, and ERS is currently recruiting for the Fiscal Officer Assistant position, as well as a clerical position. Finally, the budget action this year allowed ERS to create a new research analyst position, which will be filled next year.

(c) 2013 Meeting Schedule

Ms. Ninneman discussed the 2013 Pension Board and committee meeting schedule.

The Chairman asked whether moving the Investment Committee meetings from Monday to Thursday still worked for those attending.

Mr. Christenson stated that he has several conflicts next year and requested that the meetings be moved back to Mondays beginning in 2013. The Board agreed.

The Chairman then noted that the August date for the Pension Board meeting is currently just a placeholder. The Board may not meet, depending on workload.

(d) Fiduciary Liability Insurance Renewal

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board unanimously approved the renewal of its existing fiduciary liability insurance coverage through Aon. Motion by Ms. Van Kampen, seconded by Dr. Daugherty.

(e) Fiscal Officer

Mr. Gopalan first discussed the October portfolio activity report, noting the October funding of \$10 million from IFM and \$3.8 million from ABS, as well as some smaller distributions from American Realty Advisors, UBS Trumbull, and Adams Street.

Mr. Gopalan then discussed the October cash flow report, noting that no additional funding is needed beyond the \$15 million already requested for November and December.

In response to a question from the Chairman, Mr. Gopalan stated that the funding request pace for 2013 will remain the same.

Ms. Ninneman next discussed the Pension Fund budget. The 2013 budget request is just over \$10 million, less than in 2012. Additional expenses include a feasibility study and project planning for a full upgrade to the Vitech System. Project planning for a 2014 implementation will begin soon to ensure the upgrade is clean. The OBRA module, which was not fully implemented when the system went live, will also be updated, as well as electronic filings and STT training. An educational video series may be added in 2013 to target Milwaukee County employees who are age 20 to 35 and 35 to 50 to aide them in retirement planning. Finally, the travel and training budgets are also increasing to accommodate the 5 new Pension Board members attending new Trustee training in 2013.

In response to a question from the Chairman, Ms. Ninneman stated that the budget now before the Board is the same budget the Board reviewed in previous meetings, except that salaries and fringe have changed slightly.

In response to questions from the Board, Ms. Ninneman confirmed a new ERS research analyst position was approved through the County. The

County will be reviewing all positions and salaries after the first of the year, but how soon any change will be implemented is unknown. The salary compensation for the research analyst position is part of the budget already, and any increase will need to be absorbed.

In response to a question from Ms. Westphal, Ms. Ninneman confirmed that ERS is now a division of Human Resources.

**The Pension Board unanimously approved the 2013 ERS Budget.
Motion by Dr. Peck, seconded by Dr. Daugherty.**

10. Audit Committee Report

The Chairman provided an overview of the November 6, 2012 Audit Committee meeting. The Chairman noted that some items on the agenda were tabled for a future meeting to allow ERS members to comment on them.

The Audit Committee discussed changes to OBRA processing by giving members an option to have their lump sum payment made as a direct deposit to their checking account or via the Accelapay prepaid cash card.

The Audit Committee next discussed the 2013 ERS budget.

The Audit Committee then discussed the 2013 annual meeting. This meeting will be held on April 17, 2013.

The Audit Committee next discussed the 2013 Pension Board and Committee meeting schedule.

In response to a question from Ms. Mayr, the Chairman stated that it is the August Pension Board meeting that would be cancelled if there was no business to discuss. Additionally, the Chairman agreed that there should be adequate notification if there is a cancellation of either the Audit or Investment Committee meetings.

11. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee topic lists. The Chairman then stated that anyone with future topic suggestions should voice them.

The Board agreed to remove the actuarial experience review item from the Pension Board topic list and to remove the GMO item from the Investment Committee topic list.

No action was taken on educational opportunities for the Pension Board members because all proposed opportunities had been previously approved.

Dr. Peck moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 9(d) for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to items 8, 12, and 13 for considering the financial, medical, social, or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories, and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 8, 12, and 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 8-0 to enter into closed session to discuss agenda items 8, 9(d), 12, and 13. Motion by Dr. Peck, seconded by Ms. Van Kampen.

12. Pending Litigation

(a) *Stoker v. ERS*

The Pension Board took no action on this item.

(b) *AFSCME v. ERS*

The Pension Board took no action on this item.

(c) *Tietjen v. ERS*

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 12:25 p.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board

EXHIBIT A

AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

3. Section 201.24(4.5) of the Ordinances provides that payment of a pension benefit to a deferred vested member shall commence as of the member's normal retirement, but in no event until timely application for the benefit is made with the Pension Board.

4. Rule 1049 currently provides that a deferred vested member's Retirement Effective Date shall be the first day of the month following the day all required paperwork is received by the Retirement Office.

5. The Ordinances and Rules do not provide guidance regarding whether a deferred vested member may modify or amend his or her application after submission and, if permissible, the appropriate retirement effective date to be used after resubmission of the application.

6. The Pension Board believes it is appropriate to provide a procedure for a deferred vested member who has already completed all necessary paperwork for retirement to amend an application for retirement before his or her retirement effective date and that such procedure would not result in an undue delay in the effective date of the deferred vested member's retirement.

7. The Pension Board interprets the Ordinances and Rules to permit a deferred vested member to modify his or her form of benefit or designated beneficiary if the member submits an amended application to the Retirement Office prior to ERS commencing payments to the member.

8. The Pension Board believes it is appropriate to amend Rule 1049 to codify this interpretation of the Rules and Ordinances.

RESOLUTION

Effective November, 21 2012, pursuant to Ordinance section 201.24(8.6), the Pension Board hereby amends and restates Rule 1049 in its entirety to read as follows:

1049. Retirement Effective Date

- (1) *Active Members.* For a member who retires directly from active service, Retirement Effective Date means the day after the day the member terminates County employment. An active member will elect a proposed Retirement Effective Date when the member completes a retirement application. This will be the member's Retirement Effective Date unless the member continues in County employment past the proposed Retirement Effective Date. If this occurs, the member's initial retirement application is void and the member must complete a new retirement application with a new proposed Retirement Effective Date.
- (2) *Emergency Retirement.* For members who retire pursuant to the emergency retirement procedures, the member's Retirement Effective Date will be the day after the day the member terminates County employment. An emergency retiree elects a proposed Retirement Effective Date as part of the emergency retirement procedures. This will be the member's Retirement Effective Date unless the member continues in County employment past the proposed Retirement Effective Date. If this occurs, the member's emergency retirement request is void and the member must complete a new retirement application with a new proposed Retirement Effective Date.
- (3) *Deferred Vested Members.*
 - (a) *Generally.* For deferred vested members who have submitted an application for retirement as required by Ordinance section 201.24(4.5), Retirement Effective Date means the later of:
 - i. the first day of the month following the member's normal retirement date or, if authorized by the Pension Board, a date after the member has attained age 55; or
 - ii. the first day of the month following the day all required paperwork is received by the Retirement Office.

A deferred vested member may elect a proposed Retirement Effective Date on the member's retirement application based on the above criteria. However, if the Retirement Office has not received all required paperwork

by the proposed Retirement Effective Date, the member's Retirement Effective Date will be changed to the first day of the month following the month that the Retirement Office receives all required paperwork.

- (b) *Modification.* If, after filing an application for retirement under Ordinance section 201.24(4.5) but before ERS has commenced benefit payments to the member, a deferred vested member desires to modify the form of benefit or beneficiary designated on his or her retirement application, such member shall be permitted to make one (1) such modification within the requirements provided by this Rule. In order to be effective, a deferred vested member's amended application must be received by the Retirement Office prior to the last business day of the month before ERS commences benefit payments.

A deferred vested member who desires to modify his or her form of benefit or designated beneficiary under this Rule shall make such modification on the application form designated by the Retirement Office for receipt of a deferred vested pension. The amended application must be signed by the member and submitted to the Retirement Office to become effective.

A deferred vested member's Retirement Effective Date following a modification under this Rule shall be the later of:

- i. the first day of the month following the date on which the deferred vested member's initial complete application for retirement was received by the Retirement Office; or
- ii. the date following the day the required paperwork modifying the member's form of benefit or designated beneficiary is received and confirmed as complete by the Retirement Office.